



Republic of the Philippines
SUPREME COURT
Manila

FIRST DIVISION

G.R. No. 109020 March 3, 1994

FELISA CHAN, petitioner,

vs.

HON. COURT OF APPEALS, and **GRACE CU**, respondents.

Arthur D. Lim Law Office for petitioner.

Nicolas V. Benedicto, Jr. for private respondent.

DAVIDE, JR., J.:

This is a petition for review on *certiorari* of the decision of the Court of Appeals in CA-G.R. SP No. 28870 ¹ which reversed and set aside the decision of the Regional Trial Court (RTC) of Manila in Civil Case No. 91-55879. ² The RTC had affirmed the decision of the Metropolitan Trial Court (MTC) of Manila in civil Case No. 131203-CV. ³

The antecedent facts are set forth in the challenged decision of the public respondent Court of Appeals as follows:

It appears from the records that on February 1, 1983, Felisa Chan and Grace Cu entered into a contract of lease whereby the latter will occupy for residential purposes Room 401 and the roof top of Room 442 of a building owned by the former located at Elcano corner Urbistondo, Manila. The term of the lease is one year or up to February 1, 1984 at a monthly rental of P2,400.00. Said contract of lease was renewed every year for two successive years or up to February 1, 1986. In the contracts, it was agreed that the premises shall be used as a learning center. After February 1, 1986, there was no written contract of lease executed by the parties, but Grace has continuously occupied the premises as a learning center.

The monthly rental was raised every year. In January, 1989, it was increased to P3,484.80.

Sometime in November, 1989, Felisa padlock the way to the roof top. Thereafter, there was an exchange of communications between the parties. Grace insisted that she should be allowed to use the roof top of Room 442, while Felisa maintained that only Room 401 was leased and that the use of the roof top which, according to her poses danger to the students, was merely tolerated. Eventually, Felisa terminated the lease, giving Grace until January 1, 1990 to vacate the premises.

Because of the dispute between the parties, Felisa did not collect the rental for December, 1989. Whereupon, Grace tendered to Felisa a check amounting to P3,310.56. The latter refused to accept the check. So Grace's lawyer tendered the payment in cash in the same amount of P3,310.56, with notice to Felisa that if she will not accept the payment, the same will be deposited in court by way of consignment. At this juncture, Felisa allowed Grace to hold classes only up the March, 1990.

On January 15, 1990, Grace filed Civil Case No. 131203 *for consignment* with the Metropolitan Trial Court of Manila, Branch 15, alleging in her complaint that Felisa refused to accept, without justifiable cause, the rentals for the premises in question. Felisa interposed in her answer a counterclaim for ejectment, contending that the lease, being month to month, had expired but that despite demand, Grace refused to vacate the premises. ⁴

On 18 December 1990, the MTC rendered its decision, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered as follows:

1. The court declares that the roof top of the building at 442 Elcano corner Urbistondo Street, Manila is included in the lease;
2. The court fixes the term of the lease over the subject premises until June 30, 1992 upon the expiration of which, petitioner [Grace Cu] is ordered to vacate the said premises;
3. The court declares the consignment of rentals made by the petitioner to be valid and legal and hereby release[s] the petitioner from the obligation of paying the said rentals;
4. All the respective claims of the parties against each other for damages and attorney's fees are hereby dismissed.

SO ORDERED. ⁵

Both parties appealed to the RTC of Manila. Grace Cu maintained that the MTC should have fixed a longer period, while Felisa Chan contended that the MTC erred in extending the term of the lease and in upholding the validity of the consignment. In its Decision of 27 March 1992, the RTC affirmed the decision of the MTC.

Cu then went to the Court of Appeals on a petition for review ⁶ alleging therein that the RTC erred "in not fixing a longer period of extension of the lease" and "in extending the duration of the lease to 30 June 1992 but subverting its factual findings in justification of the extension as it concluded that the period was intended by the parties for a longer duration." In its challenged Decision of 20 January 1993, the Court of Appeals reversed and set aside the decisions of the MTC and the RTC and dismissed the complaint for consignment for lack of merit. It likewise said that the MTC and the RTC erred in passing upon the issue of ejectment raised in Chan's counterclaim since an action for ejectment can only be initiated through a verified complaint, not a counterclaim.

In dismissing the complaint for consignment, the Court of Appeals ruled that under Article 1256 of the Civil Code, consignment may only be resorted to by a debtor if the creditor to whom tender of payment has been made refuses without just cause to accept it. The court of Appeals held that Chan's refusal to accept the rental was justified. It said:

Thus, the respondent [Chan] allowed the petitioner [Cu] to hold classes in the premises only until March, 1981. ⁷ Obviously, from respondent landlord's point of view, beyond March, 1989, ⁸ (1) the petitioner may no longer be considered as lessee or debtor who may relieve herself of liability by tendering payment of the rentals and if refused, by consigning them in court; and that (2) the petitioner is a squatter or trespasser who has occupied the premises not only without any agreement with the respondent but against her will. So, as far as the respondent is concerned, this consignment may not come under the provisions of Article 1256 of the Civil Code cited above. Simply put, respondent's refusal to accept petitioner[s] rental payments was *with just cause* and that, therefore, the respondent may not be compelled to accept such rental payments. ⁹

On the issue of ejectment, the Court of Appeals made the following observations:

Now, for a digression, We cannot see our way clear why the MTC and the RTC passed upon the issue of ejectment raised in respondent's counterclaim and fixed the term of the lease up to June 10, 1992. Under Section 1, Rule 70 of the Revised Rules of Court, an action for ejectment can only be initiated through a verified complaint, not counterclaim. This is basic. Thus, the said courts should not have fixed the terms of the lease. This issue can only be decided in a case of ejectment filed pursuant to the said rule. The supreme Court, in *Ching Pue vs. Gonzales* [87 Phil. 81] held:

Consignment in court under article 1176 of the Civil Code, is not the proper proceedings to determine the relation between landlord and tenant, *the period or life of the lease or tenancy*, the reasonableness of the rental, the right of the tenant to keep the premises against the will of landlord, etc. *These questions should be decided in a case of ejectment or detainer* like those two cases brought by Gonzales against two of the petitioners under the provisions of Rule 72 of the Rules of Court. In a case of ejectment, the landlord claims either that the lease has ended or been terminated or that the lessee has forfeited his right as such because of his failure to pay the rents as agreed upon or because he failed or refused to pay the new rentals fixed and demanded by the lessor. The lessee in his turn may put up the defense that according to law, the rental demanded of him is unreasonable, exorbitant and illegal, or that the period of the lease has not yet expired, or that if the rental law is applicable, and that the premises are destined solely for dwelling, he may not be ousted therefrom because the owner does not need them for his own use, etc. *We repeat that all these questions should be*

*submitted and decided in a case of ejectment and cannot be decided in a case of consignment.*¹⁰

Chan's motion to reconsider the decision¹¹ having been denied by the Court of Appeals in its Resolution of 23 February 1993,¹² she filed the instant petition wherein she alleges that:

1. THE HONORABLE COURT OF APPEALS HAS DECIDED THE CASE IN A WAY PROBABLY NOT IN ACCORD WITH THE LAW OR APPLICABLE JURISPRUDENCE OF THE SUPREME COURT (SECTION 4 (A), RULE 45 OF THE RULES OF COURT);

2. THE HONORABLE COURT OF APPEALS, WITH UTMOST RESPECT, COMMITTED AN ERROR:

(A) IN HOLDING THAT THE COUNTERCLAIM FOR UNLAWFUL DETAINER WAS IMPROPERLY INCLUDED IN THE COMPLAINT FOR CONSIGNATION;

(B) IN RELYING ON THE CASE OF *CHING PUE VS. GONZALES* (87 PHIL. 81) AS BASIS FOR NOT ACTING UPON THE COUNTERCLAIM FOR UNLAWFUL DETAINER AND IN IMPLIEDLY DISMISSING THE SAME;

(C) IN RENDERING A DECISION WHICH PROMOTES, INSTEAD OF AVOID, A MULTIPLICITY OF SUITS;

(D) IN RENDERING A DECISION WHICH GAVE THE PRIVATE RESPONDENT UNWARRANTED BENEFITS BECAUSE SHE IS PRACTICALLY ALLOWED TO CONTINUE OCCUPYING PETITIONER'S PREMISES WHILE PETITIONER, WHOSE RIGHTS OVER THE PREMISES WERE UPHELD, IS FORCED TO LITIGATE ANEW AND/OR TO RE-COMMENCE UNLAWFUL DETAINER PROCEEDINGS.¹³

Chan maintains that the Court of Appeals erred in giving due course to Cu's petition for review and in deciding upon issues which Cu never raised in her petition. Chan contends that the Court of Appeals should have limited itself to the matter of the extension of the lease period and not on the jurisdiction over the action or subject matter of the suit which was never raised, nor on the propriety of the counterclaim for ejectment.

Chan submits that while it is true that her cause of action for unlawful detainer was incorporated in her answer to the complaint for consignment, the Rules of Court do not prohibit such procedure, and in her case the MTC has exclusive original jurisdiction on the counterclaim for ejectment. The summary disposition of the complaint for consignment as determined by the trial court was not affected by the filing of the counterclaim since it is a counterclaim allowed under Section 1 of the Rule on Summary Procedure as it did not involve any question of ownership nor did it allege any claim in excess of P20,000.00. She then concludes that what the Court of Appeals has impliedly suggested was for her to file a separate complaint for unlawful detainer, which would be laborious and would encourage multiplicity of suits; hence, the counterclaim for unlawful detainer should not have been dismissed.

Chan also contends that the case of *Ching Pue vs. Gonzales*¹⁴ is not applicable because in *Ching Pue* the consignment cases were filed with the Court of First Instance of Manila which did not have jurisdiction to pass upon the unlawful detainer cases that were properly cognizable by the Municipal Court. In the instant case, the consignment case was filed with the MTC which also has jurisdiction over the counterclaim for ejectment. The Court of Appeals should have ordered the ejectment of Cu not only because it found that her refusal to accept the payment was with just cause, thereby impliedly holding that Cu has no right to stay in the premises in question, but also because when it promulgated its decision on 20 January 1993, the extended period (until 30 June 1992) fixed by the trial court and the Regional Trial Court had already expired.

Chan further asserts that the Court of Appeals' decision gives Cu undue and unwarranted benefits since Cu was granted much more than what she prayed for in her complaint for consignment and Chan's counterclaim was dismissed. A new ejectment suit may last for years, even beyond March 1995 which is the expiration date originally prayed for by Cu, for the duration of which Chan would be precluded from increasing the rentals.

In her Comment,¹⁵ Cu claims that the Court of Appeals decided the case properly and in accord with applicable law and jurisprudence. As to the dismissal of the counterclaim for ejectment, Cu cites *Metals Engineering Resources Corp. vs. Court of Appeals*¹⁶ which holds that where there is no claim against the counterclaimant, the counterclaim is improper and should be dismissed, and that a compulsory counterclaim is auxiliary to the proceeding in the original suit and derives its jurisdictional support therefrom inasmuch as it arises out of or is necessarily connected with the transaction or occurrence that is the subject matter of the complaint. It follows that if the court does not have jurisdiction to entertain the main action

of the case and dismisses the same, then the compulsory counterclaim, being ancillary to the principal controversy, must likewise be dismissed since no jurisdiction remained for any grant of relief under the counterclaim.

In her Reply to the Comment, ¹⁷ Chan maintains that the Court of Appeals should not have dismissed the counterclaim because such dismissal would deny her justice and give undue advantage to Cu. She set up the counterclaim for ejectment to avoid the effects of Section 4, Rule 9 of the Rules of Court which bars a counterclaim not set up and Section 2(A) of the Rules of Summary Procedure which states that a compulsory counterclaim "must be asserted in the answer, or be considered barred." The *Metals* case is not applicable to this case because the issue therein was lack of jurisdiction by reason of non-payment of docket fees.

Cu filed a Rejoinder to the Reply. ¹⁸

After deliberating on the allegations, issues, and arguments raised by the parties in their pleadings, we find merit in the petition.

It must be stressed that the validity of the consignment and the propriety of the counterclaim for ejectment were not raised before the Court of Appeals. As to the first, both the MTC and the RTC ruled that the consignment was valid. The MTC specifically stated in its decision:

On the validity of the consignment, both parties agree that the controlling case is *Ponce de Leon vs. Syjuco Inc.*, 90 Phil. 311. The court believes that under the undisputed facts earlier narrated, petitioner has complied with all the requisites laid down in the said case, namely; "The debtor must show (1) that there was a debt due; (2) that the consignment of the obligation had been made because the creditor to whom tender of payment was made refused to accept it, or because he was absent or incapacitated, or because several persons claimed to be entitled to receive the amount due (Art 1176, Civil Code); (3) that previous notice of the consignment had been given to the person interested in the performance of the obligation (Art. 1177, Civil Code); (4) that the amount due was placed at the disposal of the court and (5) that after the consignment had been made the person interested was notified thereof. ¹⁹

The RTC explicitly affirmed the MTC on this issue, thus:

3. With respect to the validity of the consignment, the Court affirms the finding of the trial court that indeed plaintiff substantially complied with all the requirements of consignment and, therefore, the same was valid and effective. ²⁰

Chan filed no petition for the review of the RTC decision and had, therefore, accepted the said ruling. Cu did not, for obvious reasons, raise the issue on consignment in her petition for review in CA-G.R. SP No. 28870. Since the validity of the consignment was not raised before it, the Court of Appeals seriously erred when it dismissed the complaint for consignment on the ground that it has no merit. Section 7, Rule 51 of the Revised Rules of Court provides:

Sec. 7. Question that may be decided. — No error which does not effect the jurisdiction over the subject matter will be considered unless stated in the assignment of errors and properly argued in the brief, save as the court, at its option, may notice plain errors not specified, and also clerical errors.

Jurisdiction is not involved in the consignment case, and no plain errors with respect thereto are discernible from the MTC and RTC decisions.

As to the counterclaim for ejectment, it must be emphasized that the parties have conceded its propriety and accepted the MTC's jurisdiction thereon. As a matter of fact, the consignment was relegated to the background and the parties heatedly tangled on the nagging issues on the duration of the lease after the expiration of the last written contract, the power of the court to extend the lease, and the length of the extension — all of which were provoked by and linked to the counterclaim for ejectment. In her Position Paper for the Plaintiff filed with the MTC, ²¹ Cu admitted having filed an answer to the counterclaim and even a counterclaim to the counterclaim:

In answer to the counterclaim, plaintiff [Cu] asserted that the lease is not on a month-to-month basis but for as long as the premises is being used as a learning center. She contends that it will be highly iniquitous that after undergoing so much expenses, her occupancy of the premises will be abruptly terminated. . . . that on the basis of justice and equity, the period of plaintiff's lease should be fixed for at least five years from February 1990 . . .

As counterclaim to the counterclaim, plaintiff alleged . . . ²²

and assigned as one of the errors to be resolved by the court the following:

2. Whether or not the plaintiff may be ejected from the subject premises. ²³

A counterclaim is any claim for money or other relief which a defending party may have against an opposing party. It need not diminish or defeat the recovery sought by the opposing party, but may claim relief exceeding in amount or different in kind from that sought by the opposing party's claim. ²⁴ Counterclaims are designed to enable the disposition of a whole controversy of interested parties' conflicting claims, at one time and in one action, provided all the parties can be brought before the court and the matter decided without prejudicing the rights of any party. ²⁵ A counterclaim "is in itself a distinct and independent cause of action, so that when properly stated as such, the defendant becomes, in respect to the matter stated by him, an actor, and there are two simultaneous actions pending between the same parties, wherein each is at the same time both a plaintiff and a defendant . . . A counterclaim stands on the same footing and is to be tested by the same rules, as if it were an independent action." ²⁶ In short, the defendant is a plaintiff with respect to his counterclaim.

Section 8, Rule 6 of the Rules of Court provides that the answer may contain any counterclaim which a party may have against the opposing party provided that the court has jurisdiction to entertain the claim and can, if the presence of third parties is essential for its adjudication, acquire jurisdiction of such parties. Under Section 4 of Rule 9, a counterclaim not set up shall be barred if it arises out of or is necessarily connected with the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction. A counterclaim may be compulsory or permissive. The former is that covered by Section 4 of Rule 9.

Chan's counterclaim for ejectment is a compulsory counterclaim because it is necessarily connected with the transaction or occurrence which is the subject matter of Cu's complaint, viz., the lease contract between them. Consequently, the Court of Appeals erred when it held that Chan's cause of action for ejectment should not be set up in a counterclaim.

We agreed with Chan that *Ching Pue vs. Gonzales* is inapplicable because in *Ching Pue* the consignment cases were filed with the Court of First Instance which did not have jurisdiction over ejectment cases; necessarily, no counterclaim for ejectment could have been interposed therein. The *ratio decidendi* of the said case is that consignment is not proper where the refusal of the creditor to accept tender of payment is with just cause. One will search therein in vain even for an *obiter dictum* which suggests that an action for ejectment cannot be set up in a counterclaim. In the instant case, the ejectment was set up as a counterclaim in the MTC which has jurisdiction over it and Cu joined that issue and the incidents thereto by her answer to the counterclaim and the counterclaim to the counterclaim.

The Court of Appeals therefore should have confined itself to the principal error raised in Cu's petition in CA-G.R. SP No. 28870, viz., the duration of the extended term of the lease fixed in the decision of the MTC and affirmed by the RTC. As fixed, the term of the lease was extended to 30 June 1992. That period had expired six months before the Court of Appeals promulgated its challenged decision. Considering that Chan did not file any petition for the review of the RTC decision and was, therefore, deemed to have agreed to the extension; and considering further that Cu, as petitioner in CA-G.R. SP No. 28870, did not come to us on a petition for review to seek reversal of the decision therein and should thus be considered to have agreed to the dismissal of her consignment case, the parties must be deemed bound by the extended term, which has, nevertheless, already lapsed.

We hold that the MTC had the authority to extend the period of the lease. The parties started with a written contract of lease with a term for one year from 1 February 1983 to 1 February 1984. This was renewed every year for two successive years, or up to 1 February 1986. No written contract was made thereafter, but Cu was allowed to occupy the premises at a monthly rental which was increased every year. In November 1989, Chan informed Cu of the termination of the lease and gave her until 1 January 1990 to vacate the premises. Articles 1670 and 1687 of the Civil Code thus came into play:

Art. 1670. If at the end of the contract the lessee should continue enjoying the thing leased for fifteen days with the acquiescence of the lessor and unless a notice to the contrary by either party has previously been given, it is understood that there is an implied new lease, not for the period of the original contract, but for the time established in Articles 1682 and 1687. The other terms of the original contract shall be revived.

XXX XXX XXX

Art. 1687. If the period for the lease has not been fixed, it is understood to be from year to year, if the rent agreed upon is annual; from month to month, if it is monthly; from week to week, if the rent is weekly; and from day to day, if the rent is to be paid daily. However, even though a monthly rent is paid, and no period for the lease has been set, the courts may fix a longer term for the lease after the lessee has occupied the premises for over one year. If the rent is weekly, the courts may likewise

determine a longer period after the lessee has been in possession for over six months. In case of daily rent, the courts may also fix a longer period after the lessee has stayed in the place for over one month.

Article 1687 grants the court the authority to fix the term of the lease depending on how the rentals are paid and on the length of the lessee's occupancy of the leased premises. In the light of the special circumstances of this case, we find the extended term fixed by the MTC to be reasonable.

WHEREFORE, the instant petition is GRANTED and the challenged Decision of 20 January 1993 of the Court of Appeals in CA-G.R. SP No. 28870 is hereby SET ASIDE, and the Decisions of 27 March 1992 of Branch 11 of the Regional Trial Court of Manila in Civil Case No. 91-55879, and of 18 December 1990 of Branch 15 of the Metropolitan Trial Court of Manila in Civil Case No. 131203- CV are REINSTATED.

Costs against the private respondent.

SO ORDERED.

Cruz, Bellosillo, Quiason and Kapunan, JJ., concur.

#Footnotes

1 *Rollo*, 114-120. Per Associate Justice Angelina S. Gutierrez, concurred in by Associate Justices Fidel P. Purisima and Jesus M. Elbinias.

2 Annex "G" of Petition; *Id.*, 88-96.

3 Annex "F" of Petition; *Id.*, 82-87.

4 *Rollo*, 115-116.

5 MTC Decision, 5-6; *Rollo*, 86-87.

6 Annex "I" of Petition; *Id.*, 100-112.

7 Should be March 1990.

8 *Id.*,

9 *Rollo*, 118.

10 *Rollo*, 118-119 (emphasis supplied).

11 Annex "K" of Petition; *Id.*, 121-129.

12 Annex "L" of Petition; *Id.*, 131.

13 *Rollo*, 15-16; Petition, 10-11.

14 87 Phil. 81 [1950].

15 *Rollo*, 133-140.

16 203 SCRA 273 [1991].

17 *Rollo*, 144-148.

18 *Rollo*, 151-154.

19 *Id.*, 86.

20 *Id.*, 95.

21 Annex "E" of Petition; *Rollo*, 68-77.

22 *Rollo*, 71-72.

23 *Id.*, 73.

24 Section 6, Rule 6, Rules of Court.

25 1 VICENTE J. FRANCISCO, *THE REVISED RULES OF COURT IN THE PHILIPPINES* 463 (2D ed. 1973).

26 FRANCISCO, *op. cit.*, at 464.

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